



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, October 28, 2016
8:30 a.m.

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Kevin McCarthy, Chair of the ASRS Board, called the meeting to order at 8:31 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Kevin McCarthy, Chair
Mr. Jeff Tyne, Vice Chair
Professor Dennis Hoffman
Mr. Lorenzo Romero (arrived at 8:57 a.m.)
Dr. Richard Jacob
Mr. Tom Connelly
Mr. Tom Manos

Two vacant positions.

A quorum was present for the purpose of conducting business.

2. Approval of the Minutes of the September 30, 2016, Public Meeting and Executive Session of the ASRS Board

Motion: Prof. Dennis Hoffman moved to approve the Minutes of the September 30, 2016, Public Meeting and Executive Session of the ASRS Board. Dr. Richard Jacob seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

3. Presentation Regarding PRIDE Award for Improvement

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the 2016 PRIDE Improvement award: Robert Peterson; Nicie Montanez and Brian Crockett; Susan Webner and the ASRS HR Team - Tracy Darmer, Jana George, Neal Park; and the Unusual Suspects Team – Trent Kendall, Srinivasa Attaluri, Divya Kuchal, Parameshwari Vonteddu and Sunitha Surendra.

All were nominated by staff because they exemplify the following PRIDE qualities of improvement:

- Promote new ideas
- Solve problems
- Enhance outcomes or performance
- Improve relationships
- Enhance morale
- Increase efficiency, effectiveness or reduce costs

Mr. Guarino presented the PRIDE Award for Improvement to the award winners, Nicie Montanez and Brian Crockett.

4. Presentation, Discussion, and Appropriate Action Regarding ASRS 2017 Legislative Initiatives and Legislative Update

Mr. Patrick Klein, Assistant Director, External Affairs Division, introduced the topic by stating at the September Board meeting the Board approved the legislative initiatives that were recommended by the External Affairs Committee (EAC) and turned the discussion over to Mr. Nick Ponder, Government Relations Officer, to provide an update on the initiatives. Mr. Ponder provided an update on the following ASRS legislative initiatives:

A.R.S. § 38-751: Nonparticipatory employer liability allocation; definitions - The ASRS is continuing its review of the statute to provide proposed language to clarify permutations of a nonparticipatory employer not previously contemplated at the time the statute was drafted. The plan is to present the EAC with two language options at the November 18, 2016, meeting for review regarding the definition of a nonparticipatory employer. In addition, previous public discussions indicated this money may be segregated in the form of a trust; however, any reference to a trust has since been removed. Instead, the accounting will be separated.

A.R.S. § 38-711(7): Definitions - Mr. Ponder stated this initiative has been removed.

5. Presentation, Discussion, and Appropriate Action Regarding an Update on the ASRS Workforce Plan

Mr. Guarino provided a brief introduction for this topic and turned the presentation over to Ms. Martha Rozen, Chief of Administrative Services, and Ms. Jana George, Personnel Analyst, Human Resources.

Ms. George opened the presentation by stating the ASRS believes workforce planning is an extension of the ASRS strategic plan. It assists the ASRS in determining what human

resources the ASRS will need to meet the strategic objectives moving forward. This initiative began in 2015.

The ASRS Workforce Plan emphasizes the following efforts and intended benefits:

- Retaining current leaders and experts
- Preparing future leaders and experts, which safeguards business continuity and smooth transitions into vacated positions
- Knowledge transfer so that institutional knowledge is maintained when seasoned staff leave the agency and key positions are filled
- Developing staff in an effort to improve the agency's bench strength and increase employee engagement and loyalty
- Discovering gaps in internal skills to ensure recruitment and development strategies can be implemented to fill the pipeline for anticipated future talent needs

Ms. George indicated Phase I, which identified 41 key positions and essential competencies within the agency has been completed. The Plan Development phase, which is Phase II, is currently in progress and is open to all employees.

Ms. George and Ms. Rozen responded to questions from the Board.

6. Presentation, Discussion, and Appropriate Action Regarding the 2017 Board Meeting Calendar

Mr. Paul Matson, Director, presented the 2017 Board meeting calendar and advised the Board it follows the same schedule as the past couple of years with meetings being held the last Friday of every month except for November, which is held the first Friday in December and no meeting in July.

Motion: Dr. Richard Jacob moved to accept the ASRS Board meeting calendar as presented. Prof. Dennis Hoffman seconded the motion.

By a vote of 6 in favor, 0 opposed, 0 abstentions, 1 excused, and 2 vacancies, the motion was approved.

7. Presentation, Discussion, and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Paul Matson provided a summary of the following:

- The ASRS is currently undergoing a passive Open Enrollment for retirees.
 - New plans are being offered for pre-65 retirees.
 - At Dr. Jacob's request, all Trustees will be provided a copy of the two brochures mailed out to retirees for Open Enrollment (Medicare eligible and pre-65 retirees).
 - Although it is a passive enrollment, the ASRS has seen a high number of enrollments submitted switching to the new plans offered within the first four days of the enrollment period.
 - This is the first web-based enrollment.

- Two thirds of the enrollment forms processed have gone straight through to the provider without the ASRS having to manually intervene.
- Operations Report-The Call Center missed some of its benchmarks in the summer months due to staffing/turnover.
 - The Call Center was run with minimal staff in an effort to comply with the State hiring freeze criteria to only fill positions deemed necessary.
 - Upon review of the statistics, positions were filled and benchmarks are currently being met.

Mr. Lorenzo Romero arrived at the meeting at 8:57 a.m.

- New Data Security Initiative
 - Not part of the current strategic initiatives but will soon be presented to the OAC and later to the Board.
 - Requests received from staff information technology experts to expand on the scope of defense information technology mechanisms.
 - Expansion will require additional positions, consultants, software, organizational structure and money.
- Actuarial Items
 - Valuations will be presented at the December 2, 2016, Board meeting.
 - Future decisions the Board will need to make:
 - Projected Unit Credit methodology versus Entry Age Normal - white paper discussion requested with a comparison.
 - Review of prior actuarial audit recommendations regarding the use of more conservative methodologies in determining contribution rates.
 - Review 8% actuarial discount rate.
- Health Insurance and the Retrospective Rate Agreement
 - In excess of \$100M.
 - Can be used to offset future health insurance premium costs.
 - Presentation to be made to the OAC and later to the Board to determine how the funds are allocated.
- Defined Contribution Plans
 - ASRS has two plans, the Supplemental Retirement Savings Plan (SRSP) & the Supplemental Salary Deferral Plan (SSDP) with \$16M in aggregate assets.
 - Nationwide currently manages SRSP and SSDP for the ASRS.
 - SRSP and SSDP have been included in a current RFP for the State 457 plan which will likely lower the administrative costs for these plans.
 - This will not change the ASS authority over the plans.
 - The RFP will likely conclude within the next few months.
- Investment Portfolio
 - Structured marginally defensive; therefore, risk profile is slightly lower than the Board approved.
 - Asset Class Levels
 - Overweight in Fixed Income
 - Underweight in U.S. Equities
 - Underweight in International Equities
 - Underweight in Commodities
 - Within the Asset Classes
 - Underweight-high yield
 - Overweight-opportunistic fixed income

- Current target asset allocation to private debt is 10%
 - Highly likely investment staff will be making a recommendation to the Investment Committee (IC) to change this target allocation from 10% to approximately 12% without completing a full asset allocation study due to a significant belief the highest rate of return on a risk adjusted basis appear to be in private debt.
 - If recommendation is approved by the IC, it will be brought to the full Board for approval.

Mr. Matson responded to the Board's question regarding an update on the fiscal year-to-date investment returns.

8. Presentation and Discussion with Respect to Informational Updates from Prior and Upcoming Committee Meetings

a. Operations and Audit Committee (OAC)

Mr. Jeff Tyne announced the next OAC meeting will be held December 13, 2016, at 10:30 a.m. in the 14th floor conference room and will focus on the health insurance topics Mr. Matson previously mentioned, as well as data security.

b. External Affairs Committee (EAC)

Dr. Richard Jacob announced the next EAC meeting will be held on November 18, 2016, at 10:30 a.m. in the 14th floor conference room and will focus on the legislative initiatives and the rule making agenda.

Mr. Tom Manos indicated a possible conflict with the meeting date for a couple of the members of the EAC. Dr. Jacob stated he would work with staff to reschedule the meeting to a date that would not conflict.

c. Investment Committee (IC)

Mr. Tom Connelly announced the next IC meeting will be held on November 28, 2016, at 2:30 p.m. in the 14th floor conference room to discuss portfolio performance, oversight, overview and update of IMD activities and working group reports, in addition to reviewing the Strategic Asset Allocation of private debt, fixed income performance analytics, and a review of the inflation linked asset class.

9. Board Requests for Agenda Items

Dr. Richard Jacob requested clarification from Mr. Matson regarding the future actuarial topics previously discussed during the Director's Report and Summary of Current Events. Specifically, Dr. Jacob was interested in knowing if the plan was to discuss all the topics in one meeting or if they would be separated and discussed in multiple meetings. Mr. Matson stated his objective was to have the materials ready for the December 2, 2016, Board meeting for an overall review by the Board with possible recommendations for approval to be effective as early as July 1, 2017.

10. Call to the Public

No one from the public requested to speak at this time.

11. The next regular ASRS Board meeting is scheduled for Friday, December 2, 2016, at 8:30 a.m., at 3300 N. Central Avenue, 10th Floor Board Room, Phoenix, Arizona.

12. Adjournment of the ASRS Board

Motion: Mr. Jeff Tyne moved to adjourn the October 28, 2016, Board Meeting at 9:26 a.m. Mr. Tom Manos seconded the motion.

By a vote of 7 in favor, 0 opposed, 0 abstentions, 0 excused, and 2 vacancies, the motion was approved.

ARIZONA STATE RETIREMENT SYSTEM

Signed Copy on File

Melanie A. Alexander
Board Administrator

Signed Copy on File

Paul Matson
Director